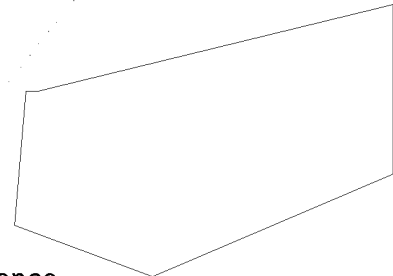


File

2

Executive Registry
84 - 5010/2

1 October 1984



25X1

MEMORANDUM FOR: Deputy Director of Central Intelligence
FROM: Director of Central Intelligence
RE: Industrial Mobilization Capability

I've been gathering material in relation to your interest in the loss of our industrial base. I believe OGI is doing an overall paper responsive to the interest you expressed and the paper from Olmer indicates where this issue is in the policy arena. I asked Ernst to do a roundup of what we are doing with respect to it.

C
William J. Casey

Not referred to DOC. Waiver applies.



25X1

SECRET



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

PERSONAL

SECRET ATTACHMENT

Director's Registry
84 - 5010/1

September 4, 1984

The Honorable
J. William Casey
Director
Central Intelligence Agency
Washington, D. C. 20505


Dear Bill:

I am attaching a variety of materials that I think will interest you; but I am reminded of the joke about the fellow who, when asked for the time, proceeds to make the questioner a watch!

The attached draft letter (classified secret) I expect Mac to sign to Bud tomorrow. It fills you in on where we are with respect to machine tools viz mobilization.

The series we are doing on an industry-sector basis measuring the ability of each to respond to crisis, will be along shortly.

Sincerely,


Lionel H. Olmer

Enclosures

SECRET ATTACHMENT





THE SECRETARY OF COMMERCE
Washington, D.C. 20230

SECRET

MEMORANDUM FOR Robert C. McFarlane
 Assistant to the President
 for National Security Affairs

SUBJECT: NSC Stockpile Study and Section 232
 Machine Tool Investigation (U)

As discussed at our August 13 meeting with Secretary Weinberger, I have strong reservations about the NSC stockpile study and its use in the Section 232 machine tool investigation. (S)

The new stockpile study is an improvement over previous studies in many respects. I heartily endorse the Administration's effort to ensure that mobilization planning guidelines are responsive to current economic, geopolitical and strategic realities. However, many specific guidelines and assumptions adopted by the NSC task force concern me. The consequences for our defense industrial base are so significant that policy decisions should not be based on the study until the full report and all assumptions have been subjected to careful interagency scrutiny. (S)

Assumptions that need careful assessment include:

- o that massive civilian resources can be shifted quickly and efficiently to defense production,
- o that the wartime GNP growth rate would be lower than the peacetime average and substantially below the current rate,
- o that industrial mobilization will proceed unimpeded despite oil prices over \$140/barrel, very limited increases in domestic energy exploration and no oil allocation program,
- o that new capacity becomes operational the instant an industry obtains investment funds, even though plant expansions actually take months or years to accomplish, and
- o that we should estimate investment needs for a war that starts and definitely stops within three years as opposed to estimating requirements for the first three years of an open-ended conflict.

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If any one of these assumptions proved incorrect, we could be unable to meet the industrial needs of a national security crisis. Moreover, as Senator Laxalt and others have suggested, industrial mobilization planning on this very limited basis calls into question the Administration's commitment to conventional war preparedness. To those opposed to the Administration's defense policies, such planning may suggest an Administration willingness to "go nuclear" rather than fight a sustained conventional war. (S)

Until we have critically reviewed these and other assumptions and evaluated their implications for industrial preparedness, I cannot endorse the NSC task force's guidelines as a basis for policy decisions, including Section 232 decisions. Although the planning assumptions that were used in our original Section 232 report on machine tools may also be flawed, I believe we should err on the side of caution when dealing with a critical defense industry. (S)

As I said at our meeting, I do not believe that the U.S. should become dependent upon its allies to supply our critical machine tool needs in an emergency. If we cannot obtain requisite supplies from our allies because of wartime damage to their machine tool industries, the U.S. could be placed in a strategically untenable position. Although some analysts may make optimistic projections of foreign availability under global war conditions, I believe we would be unwise to risk our national security on such tenuous predictions. (S)

Industrial preparedness is not simply a matter of numbers, i.e., how many machine tools we would need today versus how many might be available to us. It also depends on the dynamics of the industry -- whether it is developing new technology and at least maintaining production lines in the U.S. Imports have been eroding the U.S. machine tool industry's market share, limiting the resources available for R&D. In part because of imports, a growing share of the industry has moved or is considering moving offshore. A machine tool industry that is not at the technological forefront and depends increasingly on foreign sources for both R&D and productive capacity cannot serve our national security interests. (S)

Considering each of these points, I believe that the President should defer his decision on the Section 232 investigation until the NSC task force assumptions are more carefully reviewed. Yet we cannot afford to risk significant further erosion of our strategically important machine tool industry while we resolve mobilization study issues. Accordingly, I propose that we immediately seek voluntary export restraint by Japan, independent of the Section 232 investigation, to give our machine tool

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industry some breathing room. We may also wish to consider programs to improve the industry's productivity and manufacturing technology. With these actions, we can avoid potentially irreversible and costly mistakes for our machine tool industry and our national security, by addressing the industry's urgent problem and taking the time to refine our mobilization preparedness policy. (S)

I urge that this matter be put on a Cabinet agenda for discussion with the President at the earliest possible opportunity.

Secretary of Commerce

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